EUROPE: DRIVING GROWTH THROUGH WORKFORCE RESILIENCE AND INNOVATION

HLB SURVEY OF BUSINESS LEADERS 2025

CONTENTS

The research methodology is based on data collected from the HLB Survey of Business Leaders 2025, along with the analysis techniques and key assumptions used in the main report. For a detailed overview of the methodology, please refer to the full report here.

INTRODUCTION

European leaders started the year with muted confidence. Only 39% expect an increase in global growth, against 49% of respondents in other regions. Regional economic growth has been sluggish. Eurozone GDP increased by 0.8% in 2024 and may accelerate to 1.5% in 2025[1]. The UK may reach 1.6% GDP growth in 2025, after a weaker-than-expected 2024[2].

The operating environment has been indeed challenging due to changes in global trade and renewed geopolitical risks. Economic uncertainty dominates the risk radar at 79%. However, concerns over inflation cooled off by 18 percentage points compared to last year. In the UK, inflation is predicted to remain at 2%[3] through 2025 and in the eurozone — at 2.1%[4].

72% of European leaders continue to be apprehensive of geopolitical risks including wars and conflicts. 66% are also concerned about resource costs due to supply chain issues, potential US tariff hikes, and pressures to de-risk from China. However, these trade developments benefit some countries. As businesses seek new partners, Central Eastern European countries are emerging as nearshoring destinations with friendlier policies and skilled labour.

Hungary doubled its foreign direct investment (FDI) volumes in 2023 to €13 billion and expects more ambitious projects this year. BMW has invested over €2bn in an EV manufacturing plant in Debrecen, Hungary, starting production in late 2025. Its next venture is constructing one of the largest solar plants in Hungary, together with E.ON. Poland saw its manufacturing FDI increase by 45% post-pandemic, attracting Stellantis, Mercedes-Benz, and Northvolt. In 2024, Poland also received extra EU funds to build a new chip plant for Intel.

Ebbs and flows in the economy are unavoidable, but European leaders refuse to be complacent. The majority (83%) are confident in growing their business this year by improving innovation capabilities, talent management, and operating models.

INNOVATING FOR GROWTH

European leaders aim to rise above the tough market conditions and continue to reinvent themselves. To grow this year, leaders plan to improve operating efficiencies, invest more in their people, and achieve greater organic growth.

A programme of active reinvention will be required to drive these imperatives forward. A worrying number of leaders in the region (30%) consider themselves to be successful innovators and 56% rate their efforts as variable. The majority seek to improve their innovation through targeted interventions.

Compared to global peers, European leaders are relying on the 'people' component of innovation. 48% have cultural initiatives planned for the next 12 months. 38% seek improvements in cross-functional collaboration, and 33% — want to allocate more budgets, time, and resources towards innovative initiatives. For these businesses, successful innovation requires an intentional space — be it physical 'war rooms' for brainstorming and debate or 'virtual labs' for quick prototyping, validating research hypotheses with data, and modelling processes. Cultural transformations help create a space of psychological safety, where obscure ideas are welcome, and failures are viewed as a natural part of learning.

Those focusing on improving how they innovate are quickly identifying and testing ideas to determine which to pursue, often with the help of AI. Among companies planning to use rapid prototyping and testing, 58% aim to do so with AI. Similarly, 64% plan to use AI to track future trends, and 60% — to set up and operate an innovation lab. However, not all European leaders are equally 'sold' on the value of AI.

DIVIDED VIEWS ON AI

In a five-year perspective, 68% of leaders consider AI as the most important business technology. But in the present, perspectives diverge. 38% of respondents are already widely using or allocating resources for AI adoption while 20% express caution or even aversion to AI technologies.

Compared to last year, AI adoption has increased content generation (up 9 percentage points year on year), research & development (up 7), recruitment and HR (up 11), and process automation (up 5). "We implemented bespoke GPT chatbots to overhaul content strategy across all products. This spans not just topic clusters of articles and detailed product descriptions, but also video scripts, research, planning, etc," shared a Manufacturing CEO. For a business in the automotive sector AI is delivering "significant reduction in downtime and unexpected costs by analysing machine data and optimising our production processes".

Still, business leaders admit that AI adoption has been an uphill battle. "We are at very early stages of AI adoption, largely due to a lack of expertise and knowledge, but also due to the significant investment in other technologies that are still in the process of development and integration," shares one COO at a Business Services firm.

Funding innovation involving AI and other emerging tech is a hot topic for European businesses worried about lagging behind other regions. European businesses are petitioning governments for greater support. The EU Parliament currently calls upon members to collectively invest at least €20 billion in AI initiatives until 2030[5], on top of the €1 billion per year from Horizon Europe and Digital Europe programmes, to increase the region's competitiveness.

Last year, seven EU locations were selected to establish AI factories, with five featuring world-class AI-optimised supercomputers. AI factories aim to bring together core elements for AI success: computing power, data, and talent to help local players train large language models (LLMs) or domain-specific AI models.

As part of the AI Opportunities Action Plan from January 2025, the UK plans to join this project with reciprocal agreements and allocate extra resources to build national AI infrastructure. Through the BridgeAI programme, businesses can apply for AI investments of up to £2 million[6].

However, to pull off successful AI joint ventures, Europe will need to address existing regulatory barriers. For example, the UK government has used a patchwork of industry-specific best practices and pre-existing legislation. Lack of clear guidance has resulted in reluctance among business leaders to invest in AI ventures. Understandably, concerns over regulatory change have increased by 15 percentage points compared to last year. The AI Safety Bill, the first British legislation on AI due in 2025, is focusing on AI safety and powerful ‘frontier models’.

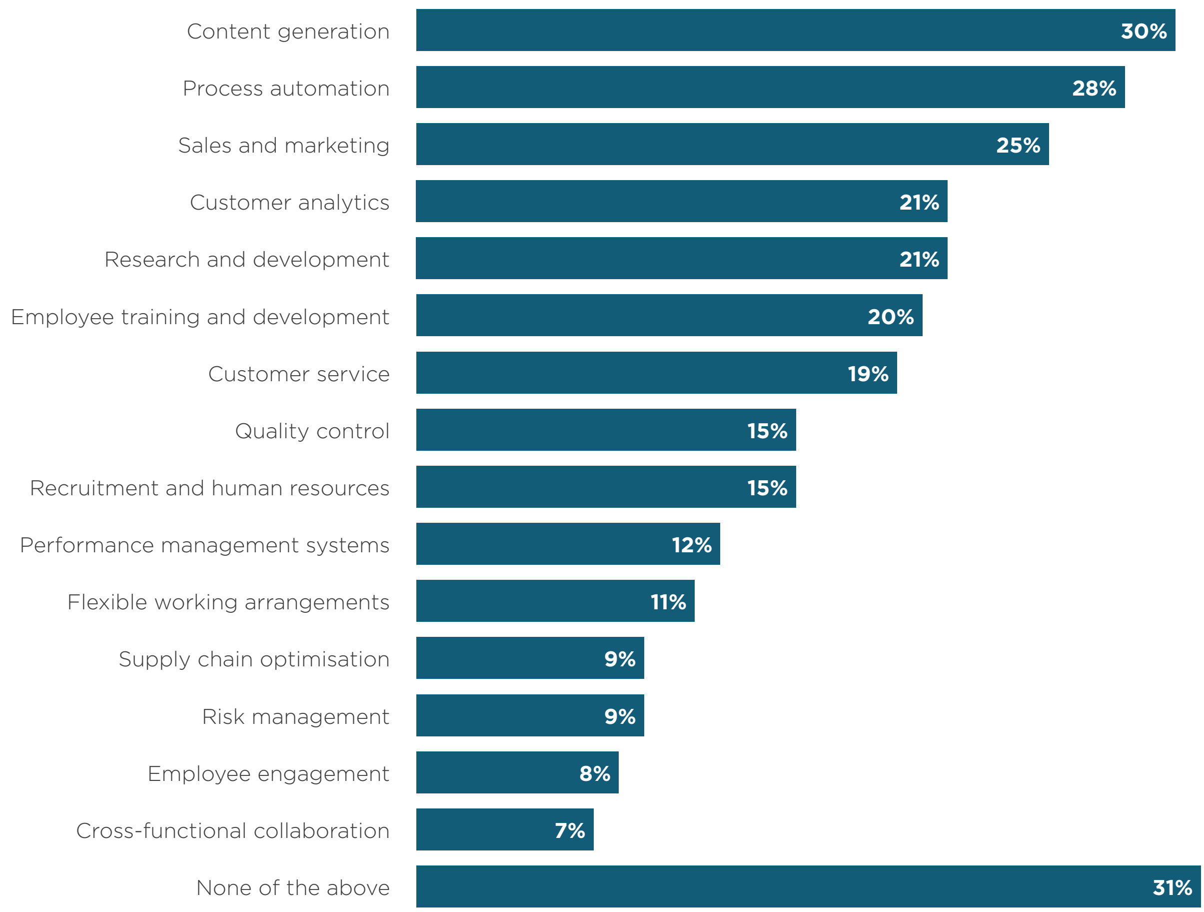
The first provisions in the EU AI Act took effect on February 2nd, 2025. Follow-up rules will apply from August 2025 and onward. The law’s perception has been polarising. Critics argue it will further exacerbate the costs and time-to-market for AI applications, discouraging new entrants. Proponents counter that it creates a healthier, more ethical environment for innovation with built-in controls for privacy, transparency, and non-discrimination.

Despite the constraints, regional AI players have emerged: Mistral AI (large language model), Stability AI (stable diffusion image-generating software), and Graphcore (AI chip development). European businesses are successfully demonstrating how AI can be brought in to invigorate their product and service portfolios. Siemens has embedded AI into industrial applications, including building management systems, energy management solutions, and manufacturing control systems.

European leaders shouldn’t miss out on AI opportunities for data-driven decision-making and process optimisation due to uncertain regulatory or financial climates. AI adopters should continue with internal proof-of-concept (PoC) deployments, to validate assumptions and scope potential risks, as many started last year. Small-scale PoCs enable the testing of multiple AI use cases in parallel so project teams can choose those with the highest impact and feasibility.

EUROPEAN LEADERS EMBRACE AI FOR AUTOMATION AND INNOVATION

Q: Where has your company used AI technologies to automate or enhance operations?



CULTIVATING HUMAN CAPITAL

58% of European leaders are concerned with access to talent more so than global peers who rank this risk 10 positions lower. By 2040, the EU workforce is projected to shrink by 2 million workers annually due to retirements and fewer graduates.[7] The rapidly ageing population strains local governments' social systems and poses equal challenges for businesses. Many risk losing significant institutional knowledge and skills faster than they can replace them.

This potential loss of institutional and process knowledge has dire consequences for the economy. During the 2008-09 financial crisis, most of the staff at HM Treasury in the UK had never experienced a recession or banking crisis, resulting in avoidable policy mishaps. More recently, Boeing suffered from grave quality problems compounded by massive worker departures during the pandemic.

European leaders recognise that people are their most precious asset — both in terms of quality and supply. Compared to other regions, European leaders are 1.2X more committed to investing in their people this year to grow, ahead of adopting new technology. 40% also consider talent acquisition as a weakness they need to address in 2025, on par with improvements to operating efficiency.

The two issues are connected at the hip. Skills mismatches, missing competencies, and lack of experience create productivity issues. Europe has experienced slower productivity growth over the last two decades, compared to the US and China, which has held back competitiveness, according to Mario Draghi's investigation. "The core focus of a competitiveness agenda should be to raise productivity growth, which is the most important driver of long-term growth and leads to rising standards of living over time. [...] Competitiveness today is less about relative labour costs and more about knowledge and skills embodied in the labour force."[7]

Ongoing talent shortages and local regulatory hurdles prompt companies to seek alternative strategies. "In France, more and more companies are entering partnerships with academic institutions to attract and nurture diverse talent. For skills in shortage — like IT and data analytics — leaders often expand talent search across and beyond Europe," n**oted Laurent Capbern of HLB France.** Many businesses have also moved their manufacturing facilities elsewhere. Others have built a global network of suppliers for core product components.

European tech companies are considering moving their headquarters to the US for a more favourable business climate. French Mistral is rapidly growing its Bay Area office to access new talent and extra capital. Europe's biggest telecom equipment and network company Ericsson is considering heading to the Western hemisphere due to a "weakening market [...] and burdening regulations," according to the CEO.[8]

"In the Netherlands, we need people everywhere," **says Erik van der Haar, HLB Netherlands.** "To address the gaps, companies naturally seek labour from neighbouring countries or outsource some operations outside of Europe". These dependencies are rather critical. Dutch semiconductor company ASML warned the government it would move its operations if immigration policies for skilled foreign workers tighten.

"In the UK all industries have already been feeling the effects of Brexit on the talent supply," **echoed Joe Diston, HLB UK.** "The challenging immigration laws further aggravate the issue." Successive British Governments have tightened immigration policies, aiming to reduce reliance on overseas workers and improve education in the local workforce. The number of issued visas for overseas workers in healthcare, engineering, and IT roles — where talent shortages remain high — has been reduced. The best strategy for leaders who want to ensure that ongoing shortages don't hinder innovation is to double down on retraining and nurturing existing talents.

TALENT UPSKILLING

Among respondents, 40% view their people as 'high performing and engaged' and 56% as 'productive, depending on circumstances'. Most want to tilt that scale in the next 12 months through targeted people management initiatives.

To improve their workforce effectiveness and engagement, 59% plan to invest more in employee training and development. 52% also aim to change the company culture and 48% seek changes to people engagement and internal communications.

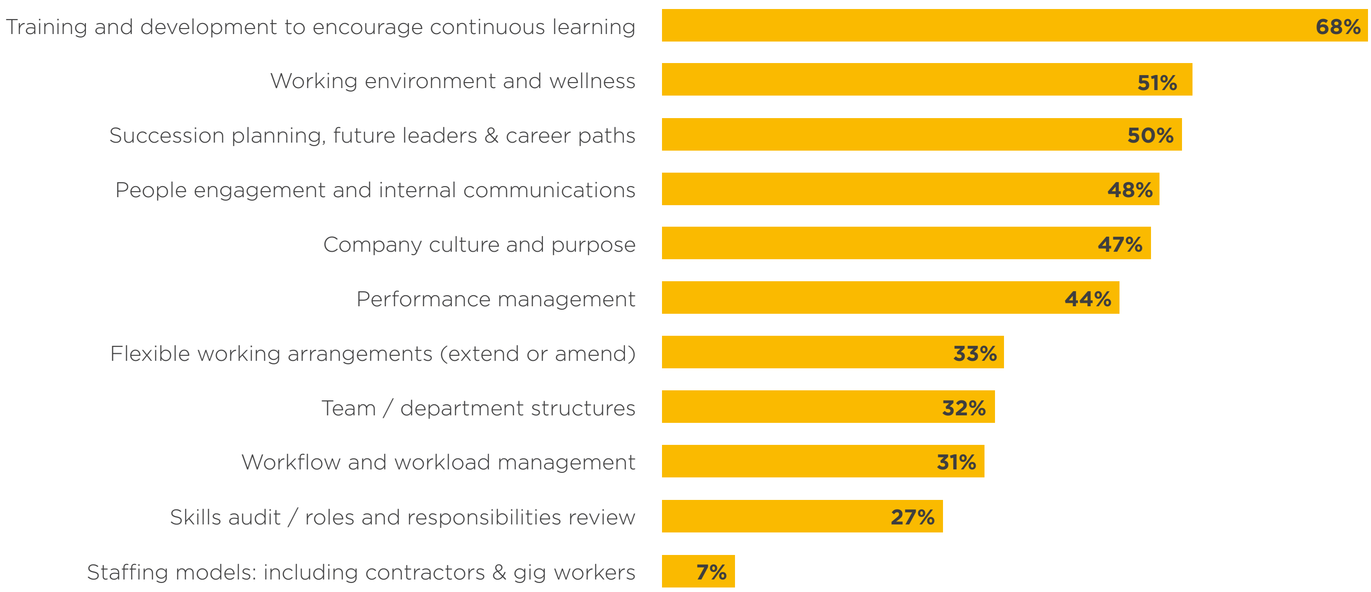
Retraining and upskilling initiatives can effectively address skills shortages but may face cultural resistance. Some Europeans lack a 'life learning mindset' as more emphasis has been traditionally put on formal learning. People often feel 'done' after graduating from university or vocational institutions. Job-related training participation rates hover at 25% to 50% across most EU states — below the target of 60% set by the EU government[9].

Lack of time or funding is the most common reason for employees not to pursue continuous education, and this can be addressed by employees. Greater schedule flexibility for classes and program sponsorships can encourage more workers to pursue skill-building. Danone pledged to relocate over 1 million worker hours annually to training initiatives until 2030 to help its people develop the 'skills of tomorrow'. This initiative will support the creation of 2,500 new roles in Europe by 2027 as part of its green transition.

Government initiatives like the Skills Agenda and Pact for Skills in the EU and an AI Upskilling fund in the UK can help companies fund employee reskilling. By the end of 2024, twelve Bulgarian energy companies received EU funding to retrain workers affected by the green transition. Such investments could provide leaders with the funding they need to support other important people initiatives on the 2025 agenda: improvements in workplace environment and wellness (46%), better succession planning (44%), and performance management initiatives (43%). These are worthy intentions to improve employee retention and avoid further turnover and loss of expertise.

LEADERS INVEST IN SKILLS AND ENGAGEMENT TO BOOST WORKFORCE PERFORMANCE

Q: Which of the following areas are you focusing on to improve workforce effectiveness and engagement?



OPTIMISING FOR EFFICIENCY

European businesses face ongoing challenges to sourcing strategies, risk management, and governance. The impacts of interrelated crises are still palpable: Only 14% consider their operating models as running at optimum, and 83% rank it as needing improvement.

To maintain strong financial performance, business leaders are restructuring and streamlining processes to build leaner, future-ready business models. 40% of leaders in Europe are committed to improving weaknesses in their operating efficiency. This is up by 5 percentage points from last year. Half seek organisational structure improvements and 46% are looking to streamline processes to improve how they are operating.

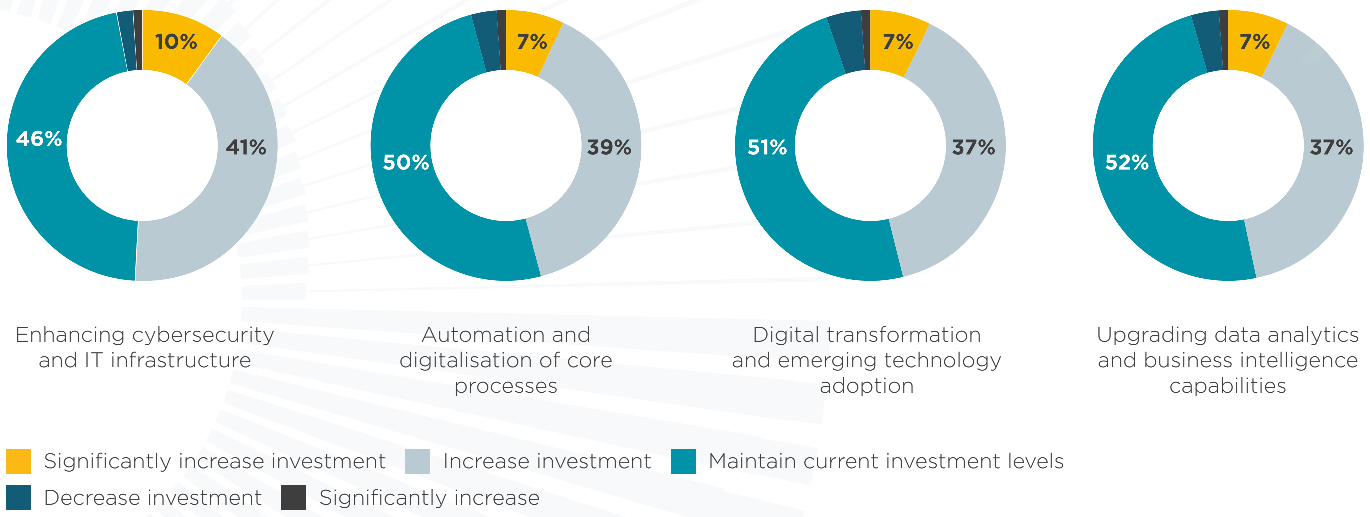
European leaders face a 'steepening trajectory' in digital transformation to remain agile and competitive. 48% plan to update their technology systems in 2025. They put high hopes in emerging technologies as a conduit for greater business agility and resilience. In the next 12 months, increases in investment are planned in the following areas: cybersecurity, IT infrastructure, process digitisation and automation, and ongoing digital transformation.

When it comes to deploying AI to streamline operating models, 40% of business leaders in Europe are targeting enhancements to data analytics capabilities and 67% of this cohort are looking to AI to help them with this. 41% are trying to enhance business agility and over half of them are using AI to make this happen. AI can unlock deeper customer and market insights for strategy refinement. When embedded in digital workplace tools, the algorithms could also generate greater process efficiencies and enable new customer offerings.

BBVA, a Spanish banking group, is an early adopter of digital-first banking services, investing in a unified global data platform to gain deeper customer insights. This enabled BBVA to develop advanced customer segmentation models, incorporate customer feedback through natural language processing, and provide personalized financial management tools. As a result, BBVA has achieved impressive growth, with a 117% increase in new customers over the last five years, 65% of which came from digital channels, and strong financial performance with €16 billion in operating income and an efficiency ratio of 38.9% for the first nine months of 2024[10].

FUTURE-PROOFING THROUGH CYBERSECURITY AND DIGITAL TRANSFORMATION

Q: How are your investment choices changing over the next 12 months?



CYBERSECURITY IMPERATIVE

Digital transformations heighten security risks, yet companies are delaying investments in cyber protection in favour of other initiatives. Among companies whose profit margins increased by 5% or more last year, 16% plan to significantly increase spending on enhancing cybersecurity and IT infrastructure versus 3% of companies whose profits declined by 5% or more. An HLB Cybersecurity Survey also found that only 24% of businesses run ongoing cybersecurity awareness programmes[11].

Technical safeguards and regular training are crucial in the era of rapid technology transformation and AI adoption. Hackers disguise their attempts as ordinary 'Microsoft' traffic or benign 'Slack' messages to exfiltrate data and distribute malware. Social engineering has become more sophisticated, thanks to generative AI. Producing a deepfake video, visual, or voice message takes one plain language command.

"Cybersecurity risk is prolific and widespread, but companies only make investments when there's either an attack or a threat of an attack," **observed Mark Butler of HLB Ireland.** Of companies that failed a compliance audit last year, 31% had a breach that very same year. Comparatively, just 3% of those passing audits had cybersecurity issues[12]. "Cybersecurity isn't complex or costly," **adds Mark Butler.** "Even SMEs can implement essentials like secure system configurations and ongoing vulnerability monitoring". Regular employee training on best practices like multi-factor authentication, software updates, and data backups can make massive improvements to the security posture.

LEARNING FROM EUROPE'S HIGH PERFORMERS

A fifth of the leaders in Europe are in our Profit Accelerators segment — those with an increased profit margin of more than 5% this past year.

WHAT MAKES THESE COMPANIES MORE SUCCESSFUL THAN THEIR PEERS IS A GREATER FOCUS ON THE NEXT THREE AREAS:

COLLABORATIVE INNOVATION	WORKFORCE RESILIENCE	CUSTOMER-LED GROWTH
Profit Accelerators are 1.4X more likely to be successful innovators	Profit Accelerators view people, not just technologies, as the critical ingredient for innovation and growth. They are 1.2X more concerned about access to talent—spurring immediate action.	Twice more Profit Accelerators have an optimal operating model.
Just like their peers, they're committed to building a culture of innovation internally and improving cross-functional collaboration.	Improving weaknesses in talent acquisition and investing more in their people are their overarching priorities.	They appear to have already 'trimmed some sprawl', being 1.4X less inclined to seek cost reductions and 1.5X less focused – improvements in operating efficiencies.
But their competitive edge comes from collaboration. Profit Accelerators are 1.2X more likely to cooperate with other enterprises and organisations on innovative initiatives.	They're 1.1X more committed to implementing extra training programs to promote continuous learning and implementing better succession planning to cultivate the new generation of leaders and establish better career paths for their people — both critical steps for talent retention.	Instead, their top areas of focus are technology updates and organisational structure improvements. They are 1.3X less likely to seek process optimisation to streamline workflows and eliminate redundancies, suggesting a leaner business model.
They're also 1.6X more likely to rely on outsourcing to grow this year. But because of a greater reliance on ecosystem partners, they're 1.8X more likely to view their supply chain as a weakness and seek improvements in this area.	The biggest divergence between 'profit leaders' and others is their readiness to use AI in people management.	To further strengthen their operations, 41% plan to refocus their customer experience and 55% are doing this with the help of AI.
Compared to peers, Profit Accelerators are further on the digital maturity curve. They're 1.5X less likely to view their digital capabilities as a weakness and deploy AI more widely to support innovative initiatives, innovation labs, customer advisory boards, rapid prototyping, and future trends prediction.	Profit Accelerators are 2X more likely to use AI for skill assessments and role and responsibilities reviews, 2.4X more — for staffing model optimisation, and 3.2X – for team structure and departments optimisation.	They're also deploying AI in other areas of strategic importance — as part of technology portfolio updates (1.3X more than peers), to enhance data analytics capabilities, and to improve business agility.

ARE YOU JOINING FORCES TO INNOVATE?	HOW DOES YOUR WORKFORCE PLANNING LOOK?	SHOULD THE CUSTOMER BECOME YOUR FOCAL POINT?
Some of today's most profitable and successful companies are supported by a digital ecosystem of private and public sector partners—vendors, distributors, research institutions, government funds, other business allies and sometimes even indirect competitors.	Tech-fuelled demand for new skill sets will never fully eliminate talent shortages. Smart leaders invest in workforce planning to outpace the cycle of 'skills turnover'. Their Talent teams constantly scan the workforce composition to ensure the people are in the right roles at the right time.	Europe has the advantage of a single domestic market. However, many local companies have been traditionally more focused on catering to overseas buyers and cross-border expansion in pursuit of larger audiences and potentially higher profit margins.
Together, they deliver innovation few can muster on their own — complementing services, joint distribution channels, and embedded services.	They perform a regular skills gap analysis to identify missing workers' competencies and inform new learning & development (L&D) initiatives.	Ongoing geopolitical and trade challenges, as well as progressive loss in European businesses' global competitiveness, have forced many to review their strategy.
Collaborative innovation promotes idea cross-pollination, risk- and cost-sharing, as well as faster iteration on new solutions. There are obvious risks, of course, requiring tight alignment on vision, processes, and mutual obligations. However, the benefits surpass the drawbacks.	Companies that prioritise people development experience a boost in efficiencies thanks to lower employee turnover, improved resource allocation, and greater individual productivity. They're also better prepared for the future, capitalising on emerging innovations faster, thanks to greater people's capabilities.	Profitable companies have successfully cut operational excess, achieving greater efficiencies and higher agility — and they're now choosing customer experience (CX) as their differentiator from other competitors.
Are there any local academic institutions that may be open to commercialising their research or incubating joint R&D initiatives? Have you considered product co-development with a partner who has better technical know-how? Are there any companies in adjacent industries whose services may be complementary to your core offering and embedded into your portfolio? Innovation doesn't have to be a solo pursuit when it can be a partnership-driven effort.	With demographic shifts happening, how are you planning knowledge transfer? Do you have a succession programme in place to nurture tomorrow's leaders? If your people aren't performing to their best, perhaps it's because they're missing some critical skills. When was the last time you conducted a skill assessment or launched new skill-building initiatives? To secure their future, companies will have to invest in their people as much (if not more) as they currently invest in technologies.	Companies with superior customer experience can build a stronger brand, charge premium profit margins, and worry less about customer base erosion from lower-priced competitors. Ask yourself: How well do we know our customers? What do we do to ensure that they have a delightful and consistent brand experience across all touchpoints? What mechanisms do we have in place to promote customer loyalty and increase their lifetime value? CX leaders successfully balance the human touch with emerging technologies to differentiate and retain customers.

ENDNOTES

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